



INFORMATIONAL MEMORANDUM

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Florida Office of Insurance Regulation

Kevin M. McCarty, Commissioner

To All Property Insurers

Notice on Catastrophe Reinsurance

The purpose of this memorandum is to provide guidance to all property insurers regarding their coverage of catastrophe risk through reinsurance or other mechanisms. This year the Office of Insurance Regulation (Office) will be looking at the totality of the catastrophe risk from multiple storms and ultimately the insurer's ability to pay its claims. The Office is not requiring any specific level of catastrophe reinsurance such as the 1 in 100 year probable maximum loss level. Rather, the Office will look at the entire spectrum of catastrophe risk for each insurer recognizing it is equally important to protect the surplus of the insurer from multiple storms of a smaller magnitude.

Each property insurer must evaluate its catastrophe risk for this year's hurricane season as it specifically impacts its book of policies and its insurer's financial strength. The various forms of reinsurance from quota share to excess of loss will provide the traditional mechanisms to share that risk with reinsurers. The amount of risk retained by the property insurer should be such that the insurer will be solvent whether a large storm impacts Florida or multiple smaller storms impact Florida.

While traditional forms of reinsurance are an acceptable means of sharing the risk of the property insurers with others, property insurers *should also consider other risk transfer mechanisms* to enhance the options available to transfer risk and to take full advantage of those opportunities that are appropriate for the size and concentration of each insurer's book of policies.

Adequately calculating and addressing the catastrophe risk each property insurer has in this state is challenging. Property insurers need to retain some of the catastrophe risk but should limit retention of risk per storm that exceeds approximately half of the surplus above the legally required minimum. The placement of that catastrophe risk, whether in the lower levels below the Florida Hurricane Catastrophe Fund (Cat Fund) traditional layer, along side of the Cat Fund, on top of the Cat Fund, or a combination of the three, is an important strategic decision. The use of reinsurance or other mechanisms to limit that retained risk should, for most property insurers, focus more this year on addressing multiple storm exposure.

If you have any questions regarding this memorandum, please contact Robin Westcott, Director, Property and Casualty Financial Oversight, Florida Office of Insurance Regulation at robin.westcott@flor.com or (850) 413-5020.